

APPENDIX IV

CYCLE COUNTING

There are many disadvantages in taking a yearly physical inventory, and many private companies no longer do it. Taking a physical inventory usually involves shutting the facility down and losing production. The manpower and paperwork can be very expensive. Since it is usually done under pressure, there is much hurrying to complete the inventory and it is frequently done poorly. Under any circumstances, using a large number of people who are not accustomed to the job of taking inventory almost always results in waste and errors. Not the least of the disadvantages of an annual physical inventory is that it results in correcting record errors only once a year for the great majority of items. Because of these disadvantages, many companies now use periodic cycle counting to insure the accuracy of their inventories.

Cycle counting involves taking physical inventories of specific items at regular intervals throughout the year, usually just before the items are reordered. Cycle inventory avoids the costly shutdown of production facilities and the high labor costs and overtime premiums that almost always result from the pressure to complete the annual physical inventory in minimum time. Additionally, cycle counting can usually be carried out by stockroom personnel during the off peak hours. Stockroom employees are more familiar with the numbering system and location of items in the storeroom. They can be trained to be far more accurate counters than other personnel who are involved in inventory taking only once a year.

A cycle inventory system should be designed so that fast-moving items are counted more frequently. Some cycle inventory systems count items only when they are reordered. Since more popular items are reordered more frequently, they will be counted and verified more frequently. Other cycle inventory systems specify how many times each item must be counted, often calling for A items to be counted twice during the year, B items annually, and C items every two years (for example).

A cycle inventory system may be based on a check of the quantity in the bins when a replenishment lot is received in the storeroom. This technique is particularly practical since the quantity to be counted is at a minimum and the record keeper has the item card ready for posting. In simple paperwork systems, it is sufficient to have the stockroom employee write the inventory quantity on the bottom of the receiving document. The inventory record keeper can then check that quantity against the item record when posting the quantity received.

There are disadvantages to cycle counting as well as advantages. The problem of establishing paperwork cutoff dates is difficult enough for the annual physical inventory, but it becomes even more challenging for cycle counts to be made while normal agency activities are going on. Picking up the paperwork in the system so that the inventory can be properly reconciled to the records requires considerable ingenuity and discipline.

The most serious disadvantage of the cycle count system is that it is usually done by regular stockroom personnel who normally have sufficient time to handle it. When activity at the facility picks up, however, there is always great reluctance to add more

personnel in the stockroom. In order to give stockroom personnel more time during heavy activity periods, cycle counting is too often discontinued. More cycle count systems have failed for this reason than have successfully been continued, in spite of the obvious advantages of cycle counting. The best solution is a team of cycle counters permanently assigned to this work.

Annual physical inventories or cycle checks are not a substitute for good records and discipline in handling paperwork. Many agencies recognize their failure to maintain accurate records because of the resulting problems generated from within (lack of personnel, more pressing areas of concentration, shortages, overstocks, etc.) but they often depend solely on physical inventories to straighten out their records. Unless the failures that caused the records to go wrong are corrected, the records will be in error again and again.

Cycle counting material and supply inventory is an acceptable alternative to taking annual physical inventories if proper procedures are established and followed. Unless an agency is using a DGS approved computerized system which includes cycle counting logic, written procedures to use cycle counting in lieu of taking an annual physical inventory must be submitted to the DGS Inventory Standards and Support Services Division for approval. In the event of an audit, agencies using approved computer systems must be able to document that they are following the cycle counting procedures in the system.